

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gwinn Area Community Schools	County Marquette
Audit Date 6/30/04	Opinion Date 10/15/04	Date Accountant Report Submitted to State: 11/24/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

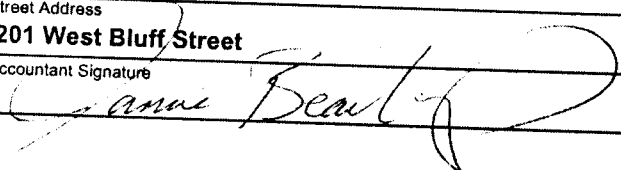
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Makela, Toutant, Hill & Nardi, P.C.			
Street Address 201 West Bluff Street		City Marquette	State MI
Accountant Signature 		ZIP 49855	Date 11/24/04

Audited Basic Financial Statements
Required Supplementary Information
and Other Financial Information

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

Audited Financial Statements
Required Supplementary Information
and Other Financial Information

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

GWINN AREA COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2004

Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2004. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- Gwinn Area Community Schools net assets were reported for the first time under GASB 34. As such, no comparisons with prior year will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for Gwinn Area Community Schools as a whole were reported at \$4,571,013. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were \$12,302,018, while revenues from all sources totaled \$12,312,227, resulting in an increase in net assets of \$10,209.
- There were no significant changes in programs for the 2003-2004 fiscal year. Enrollment increased 19.37 FTEs over the prior year; however a proration of \$106,608 was also experienced.
- The Food Service Program continues to be a self-sustaining program.
- The general fund reported a decrease of \$8,010 after other financing sources (uses). This is \$104,123 or 92.86% better than the forecasted decrease of \$112,133. This was a net result of revenues being shown as \$17,399 lower, expenditures as \$111,620 lower and other financing uses as \$9,902 lower, which are all immaterial (less than 1%) when compared with budgeted revenues of \$11,648,486 and budgeted expenditures/transfers of \$11,760,619. For further explanation, seven grants deferred revenue to the 2004-2005 school year in the aggregate of \$60,334, causing revenues and expenditures in the 2003-2004 school year to decrease by that amount. There were no significant variances between the final budget and actual amounts.

Overview of the Financial Statements

This annual report consists of three parts: Management's discussions and analysis (this section), the basic financial statements, and required supplementary information. Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two *types* of financial statements: District-Wide Financial Statements and Fund Financial Statements.

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the district's overall financial status.
- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the district's operations in more detail than the District-Wide Statements by providing information about the

District's most significant funds – the General Fund and School Lunch Fund, with all other funds presented in one column as non-major funds.

- The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

District-Wide Financial Statements

The one thing all stake-holders (parents, teachers and community members) want to know is the financial condition of the District as a result of the year's activities. The District-Wide Financial Statements report information about the District as a whole and about its activities by using the accrual basis of accounting similar to those used by private-sector companies. The two required District-Wide Financial Statements are the *Statement of Net Assets* and the *Statement of Activities*. The *Statements of Net Assets* includes all of the District's assets and liabilities. The *Statement of Activities* includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

In the District-Wide Financial Statements, the Statement of Activities is divided into two categories:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition, no asset is reported and the issuance of debt is recorded as a financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures, however, future year's debt obligations are not recorded. The Fund Financial Statements are formatted to comply with the legal requirements of

the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the following fund types and related activities are described as follows:

Governmental Funds – All of the District's services are reported in governmental funds, which include the general fund, food service fund, athletic fund, capital projects fund, and debt service fund. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The condensed Statement of Net Assets as of June 30, 2004 is as follows:

	<u>Governmental Activities – 2004</u>
Current Assets	
Capital Assets, net	\$4,050,100
	<u>2,126,183</u>
Total Assets	6,176,283
Current Liabilities	
Non-current Liabilities	1,055,150
	<u>550,120</u>
Total Liabilities	1,605,270
Investment in Capital Assets, Net of Related Debt	
Unreserved	1,750,402
	<u>2,820,611</u>
Total Net Assets	<u>\$4,571,013</u>

The District's net assets were \$4,571,013 at June 30, 2004. Capital assets, net of related debt totaling \$1,750,402 compares the original cost, less depreciation of the District's capital assets to long-term debt. The remaining amount of net assets of \$2,820,611 was unreserved and represents the accumulated results of all past years' operation. The operating results of the General Fund will have a significant impact on the change in unreserved net assets from year to year.

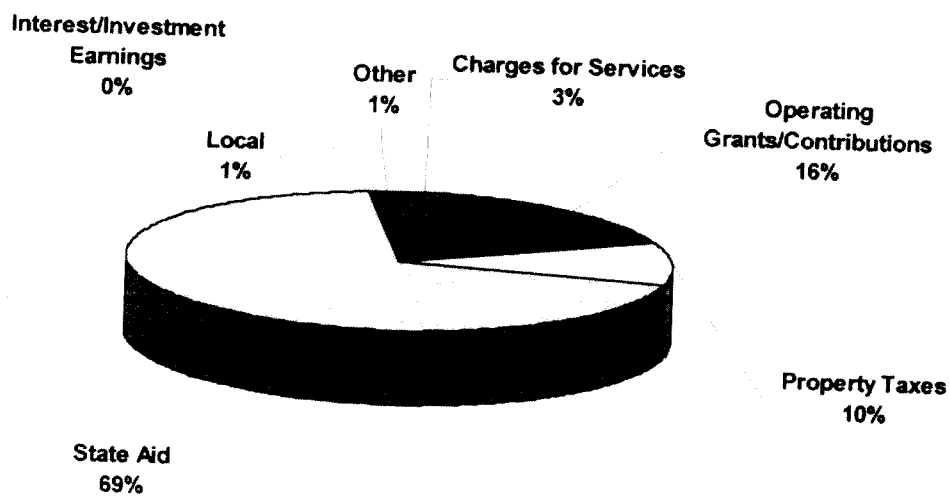
The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB 34, revenue and expense comparison to fiscal year 2003 is not available.

The condensed Statement of Activities for the fiscal year ended June 30, 2004 is as follows:

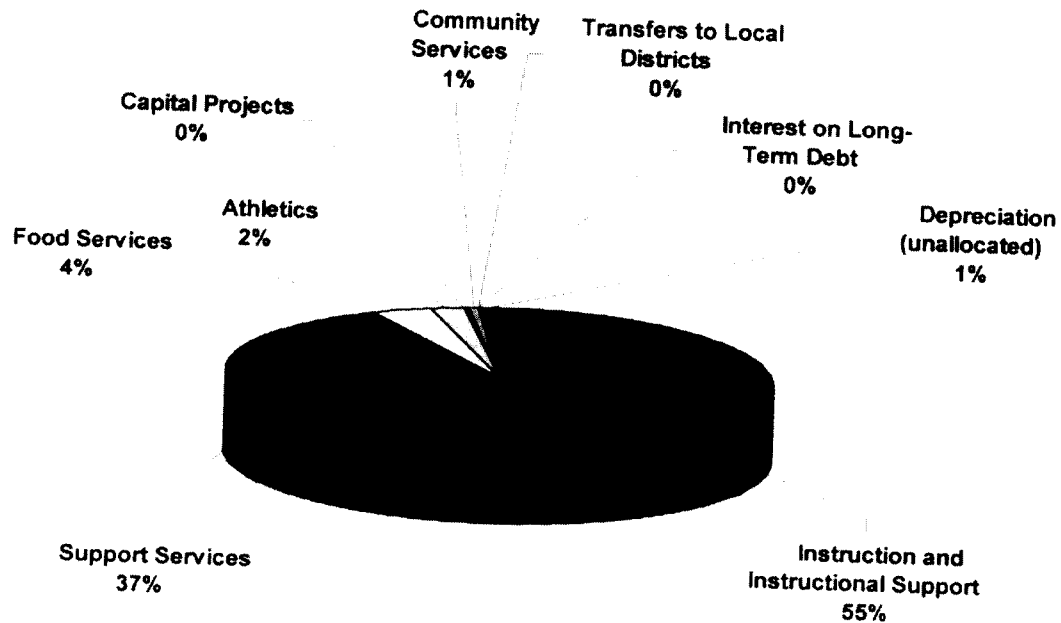
	<u>Governmental Activities- 2004</u>
Revenues:	
Program revenues:	
Charges for Services	\$ 345,957
Operating Grants and Contributions	1,986,954
General Revenues	
Property taxes, levied for general purposes	1,216,231
State of Michigan aid, unrestricted	8,517,423
Local aid, unrestricted	63,727
Interest and investment earnings	14,911
Other	<u>167,024</u>
	Total Revenues <u>12,312,227</u>
Program Expenses:	
Instruction and instructional support	\$ 6,838,807
Support Services	4,496,512
Food Services	462,345
Athletics	233,763
Capital projects	16,616
Community services	74,421
Interest on long-term debt	1,445
Transfers to local districts	15,106
Depreciation (unallocated)	<u>163,003</u>
	Total Expenses 12,302,018
	Change in Net Assets 10,209
Beginning Net Assets	<u>4,560,804</u>
	Ending Net Assets <u>\$ 4,571,013</u>

As reported in the Statement of Activities, the cost of all our governmental activities this year was \$12,302,018. Certain activities were partially funded from those who benefited from the programs (\$345,957) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1,986,954). We paid for the remaining "public benefit" portion of our governmental activities with \$8,517,423 in State Foundation Allowance, \$1,216,231 in taxes, and other revenues, such as interest and general entitlements. The District experienced an increase in net assets for the year of \$10,209.

Sources of Revenues for Fiscal Year 2004



Expenses for Fiscal Year 2004



The following table presents the cost of each of the District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). Total costs were \$12,302,018; however, this table excludes \$196,164 of costs related to depreciation (163,003), capital projects (16,610), transfers to local districts (15,106) and interest on long-term debt (1,445).

<i>Governmental Activities</i>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction and Instructional Support	\$ 6,838,807	\$ 5,502,943
Support Services	4,496,512	4,088,623
Food Services	462,345	(48,510)
Athletics	233,763	189,837
Community Services	<u>74,421</u>	<u>40,044</u>
Totals	<u>\$12,105,848</u>	<u>\$ 9,772,937</u>

The net cost shows the financial burden that each function placed on the District's operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitute 79% of the District's operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

Financial Analysis of the District's Funds

The District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$2,981,981, a decrease of \$35,170 from the beginning of the year. The change in the combined fund balance was primarily the result of continuing to spend down the fund balance in the capital projects fund in the amount of \$27,160. The remaining deficit comes from the general fund in the amount of \$8,010.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2004, the budget was amended in February and June 2004. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the General Fund original budget included updating local revenue to reflect revisions in the non-homestead taxable value, updating current grant allocations and corresponding expenditures as well as adding a new grant (MARESA Flowthrough). We also adjusted State Aid payments according to actual student counts and considered the effects of the proration.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had \$8,639,350 invested in a variety of capital assets including land, buildings, and machinery and equipment.

<i>Capital Assets at Year-End</i>	<u>Governmental Activities - 2004</u>
Land	
Building & grounds	\$ 37,293
Site improvements	5,803,392
Machinery & equipment	342,300
Vehicles	778,817
	<u>1,677,548</u>
Less accumulated depreciation	8,639,350
	<u>(6,513,167)</u>
Totals	\$2,126,183

This year's additions of \$287,783 included two busses, a steamer for the food service program and new indoor lights in all buildings and high school gymnasium. Debt was issued in the amount of \$165,798 from the Northern Lights Revolving Loan program offered through M-Tech at Bay College for the lights.

We anticipate capital additions for the 2004-2005 fiscal year to be considerably lower, if any. We present more detailed information about our capital assets in the notes (Note D) to the financial statements.

Debt

At the end of this year, the District had \$375,781 in bonds and long-term debts as depicted below.

Outstanding Debt at Year-End

School Improvement Bonds	\$219,216
Northern Lights Revolving Loan	<u>156,565</u>
Totals	\$375,781

There was one new addition of debt this year for the lighting project. We present more detailed information about our long-term debt in the notes (note G) to the financial statements.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when setting the District's fiscal year 2005 budget. One of the most important factors affecting the budget is our student count. State Aid is determined by multiplying the blended student count by the foundation allowance per pupil. The 2005 fiscal year budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. It is important to understand that 79% of the District's General Fund revenues are based on an estimate. Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operation. Based on the September count, student enrollment will be lower than what was estimated in the original 2004-2005 budget by 21.48 FTEs or \$143,916. In addition, the District's taxable value on non-homestead properties rose over the prior year's increase in the Consumer Price Index meaning that the District cannot levy the full 18 mills that the voters approved in 1994. The District will not receive \$43,843 from local taxes in the 2004-2005 school year and this amount will not be made up in State Aid.

The collections of revenues by the State can also affect the District's general operation budget as it did in 2003 and 2004. School districts throughout the state must adjust their budgets if the State decreases the per pupil State Aid or categorical funding during its fiscal year. Often times it is too far into the year to make substantial changes to negate the effects of the reduction. In 2003-2004 we saw a \$74 per pupil reduction in State Aid or \$106,608. While we try to be optimistic about the 2004-2005 school year, revenue receipts have not been strong and a proration is expected, making this the third year in a row that the foundation allowance has been below \$6,700 per pupil. An additional Revenue Consensus Hearing has been called and we expect to know if funds will be reduced by January.

Contacting the District's Financial Management

This financial report is designed to provide the district's citizens, taxpayers and parents with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Gwinn Area Community Schools, 50 W. M-35, Gwinn MI, 49841.



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPAs
Michigan Association of CPAs

REPORT OF INDEPENDENT AUDITORS

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools, (School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as of June 30, 2004.

Management's discussion and analysis and the budgetary comparison information on pages 36 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



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Board of Education
Gwinn Area Community Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Gwinn Area Community School's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Matela, Toutant, Hill + Naudi, P.C.

October 15, 2004

STATEMENT OF NET ASSETS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and cash equivalents	
Investments	\$ 1,220,028
Receivables:	1,095,078
Due from other governmental units	
Delinquent taxes	1,641,785
Other receivables	30,310
Inventory	36,715
TOTAL CURRENT ASSETS	<u>26,184</u>
	4,050,100
NONCURRENT ASSETS	
Capital assets	
Less: accumulated depreciation	8,639,350
	<u>(6,513,167)</u>
TOTAL NONCURRENT ASSETS	<u>2,126,183</u>
TOTAL ASSETS	<u>6,176,283</u>
CURRENT LIABILITIES	
Accounts payable	
Employee compensation and related liabilities	244,071
Deferred revenue	728,175
Accrued interest	60,334
Current portion of long-term liabilities	94
	<u>22,476</u>
TOTAL CURRENT LIABILITIES	<u>1,055,150</u>
NONCURRENT LIABILITIES	
Bonds payable	
Revolving loan payable	219,216
Compensated absences	156,565
Current portion of long-term liabilities	196,815
	<u>(22,476)</u>
TOTAL NONCURRENT LIABILITIES	<u>550,120</u>
TOTAL LIABILITIES	<u>1,605,270</u>
NET ASSETS	
Investment in capital assets, net of related debt	
Restricted for:	1,750,402
Inventory	
Unreserved	2,564
	<u>2,818,047</u>
TOTAL NET ASSETS	<u>\$ 4,571,013</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants and	Net (Expense)
			Contributions	Revenue and
				Changes in
				Net Assets
Governmental Activities:				
Instruction and instructional support	\$ 6,838,807	\$ 110,425	\$ 1,225,439	\$ (5,502,943)
Support services	4,496,512	26,266	381,623	(4,088,623)
Food services	462,345	165,910	344,945	48,510
Athletics	233,763	43,356	570	(189,837)
Capital projects	16,616			(16,616)
Community services	74,421		34,377	(40,044)
Interest on long-term debt	1,445			(1,445)
Transfers to local districts	15,106			(15,106)
Depreciation (unallocated)	163,003			(163,003)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 12,302,018	\$ 345,957	\$ 1,986,954	(9,969,107)
GENERAL REVENUES:				
Property taxes, levied for general purposes				1,216,231
State of Michigan aid, unrestricted				8,517,423
Local aid, unrestricted				63,727
Interest and investment earnings				14,911
Other				167,024
TOTAL GENERAL REVENUES				9,979,316
CHANGE IN NET ASSETS				
Net assets at beginning of year (as restated)				10,209
				4,560,804
NET ASSETS AT END OF YEAR				\$ 4,571,013

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

	General Fund	School Lunch	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,124,860	\$ 78,432	\$ 16,736	\$ 1,220,028
Investments	1,095,078			1,095,078
Due from other governments	1,638,521	3,264		1,641,785
Delinquent taxes	30,310			30,310
Due from other funds	130,780	71,411	45,559	247,750
Other receivables	36,715			36,715
Inventory	23,620	2,564		26,184
TOTAL ASSETS	\$ 4,079,884	\$ 155,671	\$ 62,295	\$ 4,297,850
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 242,704	\$ 126	\$ 1,241	\$ 244,071
Employee compensation and related liabilities	728,175			728,175
Due to other funds	134,641	133,153	15,495	283,289
Deferred revenue	60,334			60,334
TOTAL LIABILITIES	1,165,854	133,279	16,736	1,315,869
FUND BALANCES				
Reserved for:				
Inventories		2,564		2,564
Capital projects			45,559	45,559
Compensated absences	196,815			196,815
Undesignated, reported in:				
General Fund	2,717,215			2,717,215
Special Revenue Fund		19,828		19,828
TOTAL FUND BALANCES	2,914,030	22,392	45,559	2,981,981
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,079,884	\$ 155,671	\$ 62,295	\$ 4,297,850

See notes to financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

Total governmental fund balance		\$ 2,981,981
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at year end consist of:		
Cost of capital assets	\$ 8,639,350	
Accumulated depreciation	<u>(6,513,167)</u>	2,126,183
Interfund payables and receivables are not included in the governmental activities Statement of Net Assets. The governmental funds have a net interfund payable to the fiduciary funds of \$35,539, that is not included in the governmental activities in the Statement of Net Assets.		35,539
Interest on long-term debt is recorded in the governmental activities Statement of Net Assets when it accrues regardless of when it is due. In the governmental funds, however, it is recorded as an expenditure when it is due, and thus requiring the use of current financial resources. The current year net change in accrued interest is \$94.		(94)
Non-current liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Non-current liabilities at year end consist of:		
Bonds payable	(219,216)	
Revolving loan payable	(156,565)	
Compensated absences	<u>(196,815)</u>	<u>(572,596)</u>
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 4,571,013</u>
See notes to financial statements.		

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

	General Fund	School Lunch Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 1,460,006	\$ 165,910	\$ 43,992	\$ 1,669,908
State sources	9,132,559	28,372		9,160,931
Federal sources	686,385	316,573		1,002,958
Intermediate sources	312,632			312,632
TOTAL REVENUES	11,591,582	510,855	43,992	12,146,429
EXPENDITURES				
Current:				
Instruction and instructional support services	6,838,807			6,838,807
Supporting services	4,410,354	462,345	250,379	5,123,078
Community services	74,421			74,421
Debt service				
Principal			9,233	9,233
Interest			1,351	1,351
Capital outlay	276,396	9,005		285,401
TOTAL EXPENDITURES	11,599,978	471,350	260,963	12,332,291
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,396)	39,505	(216,971)	(185,862)
OTHER FINANCING SOURCES (USES)				
Proceeds from borrowing	165,798			165,798
Transfers to local districts	(15,106)			(15,106)
Operating transfers in	39,505		189,811	229,316
Operating transfers out	(189,811)	(39,505)		(229,316)
TOTAL OTHER FINANCING SOURCES (USES)	386	(39,505)	189,811	150,692
NET CHANGE IN FUND BALANCES	(8,010)		(27,160)	(35,170)
Fund balances at beginning of year	2,922,040	22,392	72,719	3,017,151
FUND BALANCES AT END OF YEAR	\$ 2,914,030	\$ 22,392	\$ 45,559	\$ 2,981,981

See notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

Net change in fund balances--governmental funds		\$ (35,170)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$ (265,170)	
Capital outlay	<u>285,401</u>	20,231
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		(94)
Repayments of long-term debt principal is an expenditure in the governmental funds, but not in the Statement of Activities.		9,233
In the Statement of Activities, certain operating expenses related to compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year the total amount paid for compensated absences exceeded the amount earned.		<u>16,009</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 10,209</u>
See notes to financial statements.		

STATEMENT OF NET ASSETS--FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

	<u>Private Purpose Trust Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	
Investments	\$ 1
Due from other funds	42,555
	<u>19,288</u>
TOTAL CURRENT ASSETS	<u>\$ 61,844</u>
NET ASSETS	
Restricted--scholarships	
Designated--scholarships	\$ 42,555
	<u>19,289</u>
TOTAL NET ASSETS	<u>\$ 61,844</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS--
FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

	Private Purpose Trust Fund
OPERATING EXPENSES	
Scholarships Paid	\$ 1,879
TOTAL OPERATING EXPENSES	1,879
OPERATING LOSS	(1,879)
NONOPERATING REVENUES (EXPENSES)	
Unrealized loss on investment	(2,281)
Interest income	1,588
TOTAL NONOPERATING REVENUES (EXPENSES)	(693)
CHANGE IN NET ASSETS	(2,572)
Net assets at beginning of year	64,416
NET ASSETS AT END OF YEAR	\$ 61,844

See notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS--
FIDUCIARY FUND

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

		Student Activities
ASSETS		
Cash and cash equivalents		\$ 73,648
Due from other funds		<u>47,980</u>
TOTAL ASSETS		<u>\$ 121,628</u>
LIABILITIES		
Accounts payable		\$ 103
Due to other funds		31,729
Due to student groups		<u>89,796</u>
TOTAL LIABILITIES		<u>\$ 121,628</u>

NOTES TO FINANCIAL STATEMENTS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Gwinn Area Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the School District are discussed below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Some of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 1. A management's discussion and analysis (MD&A) section, which provides an analysis of the School District's overall financial position and results of operations.
 2. Financial statements prepared using full accrual accounting for all of the School District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The School District has elected to implement the provisions of the statement in the current year.

Reporting Entity

The School District provides elementary and secondary education for the residents of Forsyth, Sands, West Branch and Skandia Townships, and secondary education for the residents of Wells Township. A seven-member Board of Education elected by the public has oversight responsibility over all operations of the School District.

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the

NOTES TO FINANCIAL STATEMENTS

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibilities include, but are not limited to, the selection of governing authority; the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Gwin Area Community Schools contain all the funds and account groups controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

Basic Financial Statements--Government-Wide Financial Statements

The School District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School District's instruction, support, and community services are classified as governmental activities. The School District does not have any business-type activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported as either investment in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basic Financial Statements--Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The District utilizes the following funds:

Governmental Funds: The focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the School District:

General Fund: The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for activities of specific school service revenue (hot lunch and athletics) or other revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Fund: The Debt Service Fund is used to accumulate resources for payment of interest and principal on long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support the School District's programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the School District:

Agency Fund: The Agency Fund accounts for assets held by the School District in a custodial capacity for various student organizations. Since the Agency Fund is custodial in nature, they do not involve the measurement of results of operations.

Nonexpendable Trust Funds: Nonexpendable Trust Funds are those whose principal cannot be expended. The administration of the School District treats the Scholarship Fund as nonexpendable due to the restrictions of outside contributors.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Basis of Accounting

The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government activities in government-wide financial statements, and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

The Nonexpendable Trust Fund uses the accrual basis of accounting. Revenues are recognized in the period in which they are earned and become measurable, and expenses are recognized in the period incurred.

Financial Statement Amounts

Cash and Cash Equivalents: The School District has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Investments: The School District holds investments, where cost equals market value, in the Michigan Liquid Asset Fund investment pool. The School District holds equity funds received through restricted contributions in its Nonexpendable Trust Fund at their fair market values.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital Assets: Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings and improvements	10-50 years
Furniture and equipment	5-20 years
Buses and other vehicles	8 years

General capital assets are those that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Assets, but are reported in the Fund Financial Statements as capital outlay expenditures.

Accrued Liabilities and Long-Term Obligations: Payables and accrued liabilities that will be paid from governmental funds are reported on governmental fund financial statements regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from governmental funds are reported as a liability in fund financial statements only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end). Bonds and other non-current liabilities that will be paid from governmental funds are not recognized as a liability in fund financial statements until due.

Deferred Revenue: The School District reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the School District before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Interfund Activity: Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursement occurs when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-Wide Financial Statements.

Accounts Payable: Amounts due for expenses incurred but not paid as of June 30, are recorded as accounts payable on the balance sheet.

Employee Compensation and Related Liabilities: Payroll and related withholding and expenses, which have been earned by School District employees but not paid as of June 30, are recorded as a liability on the School District's balance sheet.

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The recognition of sick and vacation leave is governed by policies approved in various employee contracts.

Accumulated unpaid compensated absences are recorded in accordance with GASB Statement No. 16. This Statement requires vacation leave-type absences to be accrued if the employee has earned but not used it and for which the employee can receive compensation in a future period. Sick leave-type absences are recorded as a liability if the employee earns the right to be compensated for all or a portion of their accumulated leave upon termination. The method used to determine the liability includes both employees who currently are eligible (vested) to receive termination payments and other employees who are expected to become eligible (vested) in the future. The accumulations are reduced to the maximum amount allowed as a termination payment. GASB Statement No. 16 also requires an additional amount to be recorded as a liability for salary-related payments associated with the payment of compensated absences (Social Security taxes, etc.). Current amounts, expected to be liquidated with expendable available financial resources, are reported as an expenditure and a fund liability of the governmental fund from which they will be paid.

Accumulated vacation and sick pay amounts that are not current, and, not expected to be liquidated with expendable available financial resources, are recorded in the Government Wide Statements.

Substantially, all of the School District's employees participate in the Michigan Public School Employees' Retirement System. Additional post-employment benefits are provided by the Michigan Public Schools Employees' Retirement System.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Due to Student Groups: The School District holds, in a fiduciary capacity, funds owned by various student classes and organizations. The asset and related liability is recorded in the School District's Student Activities Fund.

Fund Balance: The unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances represent tentative plans for future use of financial resources.

Property Taxes: Property taxes are levied on July 1, on behalf of the School District by various taxing units. The School District recognizes property tax revenue when levied, to the extent they result in current receivables (that is, collected within 60 days of the balance sheet date).

Collections include delinquent real property taxes remitted by the County of Marquette. If the delinquent taxes are not collected from taxpayers within three years, the School District must refund the taxes plus interest.

State Revenue: The State of Michigan uses a foundation grant approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2004, the foundation allowance was based on a blended average of pupil membership counts taken in 2003.

The State's portion of the foundation is provided primarily by a property tax millage of 6.00 mills (on both homestead and non-homestead property) and by an allocated portion of sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes levied at a rate of up to 18 mills. The loss of local funding as a result of a Renaissance Zone formed within the School District was reimbursed by the State. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and the Budgetary Process: The School District follows the budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE B--CASH AND INVESTMENTS

Cash and cash equivalents and investments included in the basic financial statements as of June 30, 2004, consists of the following:

	<u>Cash & Cash Equivalents</u>	<u>Investments</u>
Cash (overdraft) in demand accounts	\$ (234,772)	
Cash in savings accounts	1,527,270	
TOTAL CASH DEPOSITS	<u>1,292,498</u>	<u>\$ 0</u>
Cash on hand	1,178	
Stocks		15,379
Mutual funds		<u>1,122,254</u>
TOTAL	<u>\$ 1,293,676</u>	<u>\$ 1,137,633</u>
Government-Wide Financial Statements:		
Cash and cash equivalents	\$ 1,220,028	
Investments		\$ 1,095,078
Fiduciary Fund Financial Statements:		
Cash and cash equivalents	73,648	
Investments		<u>42,555</u>
TOTAL	<u>\$ 1,293,676</u>	<u>\$ 1,137,633</u>

Cash

The total cash deposits held in financial institutions at June 30, 2004, is \$1,550,849, of which \$200,000 is insured by the Federal Deposit Insurance Corporation (FDIC) under Regulation Number 330.8. The remaining balance of \$1,350,849 was uninsured and uncollateralized. This regulation, in summary, provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 for both demand deposits and time deposits in every financial institution, that is not a branch location, that is a member of the FDIC. All accounts are registered in the name of the reporting entity or a specific fund and recorded at cost. Interest is recorded when earned and credited to the applicable account.

Investments

The School District's investments are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered, or for those securities held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' safekeeping departments in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the School District's name.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE B--CASH AND INVESTMENTS--Continued

Investment Type	Category			Carrying Value	Market Value
	(1)	(2)	(3)		
Risk-categorized:					
Nonexpendable Trust Fund:					
Common Stock	\$ 2,533			\$ 2,533	\$ 2,533
Preferred Stock	12,846			12,846	12,846
Total Risk-Categorized	<u>\$ 15,379</u>	<u>\$ 0</u>	<u>\$ 0</u>	15,379	15,379
Nonrisk-Categorized:					
Mutual funds				1,122,254	1,122,254
TOTAL INVESTMENTS				<u>\$ 1,137,633</u>	<u>\$ 1,137,633</u>

Statutory Authority

Act 196, PA 1997, authorizes the School District to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at time of purchase within the two highest classifications established by, not less than two, standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers' acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions, that at the time of purchase, are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE C--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (receivable) and to (payable) the individual funds, by fund, as of June 30, 2004, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 130,780	General	\$ 134,641
School Lunch	71,411	Athletics	15,495
Capital Projects	45,559	School Lunch	133,153
Nonexpendable Trust	19,288	Agency	31,729
Agency	47,980		
TOTAL	<u>\$ 315,018</u>	TOTAL	<u>\$ 315,018</u>

The above amounts do not represent interfund borrowings; instead, they represent actual amounts which are pending between funds at year-end, due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

Amounts transferred to and from various individual funds for the year ended June 30, 2004, are as follows:

<u>Fund</u>	<u>Transfers to Other Funds</u>	<u>Fund</u>	<u>Transfers From Other Funds</u>
General	\$ 189,811	Athletics	\$ 189,811
Food Service	39,505	General	39,505
	<u>\$ 229,316</u>		<u>\$ 229,316</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE D--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Adjustments	Balance June 30, 2004
Non-depreciated capital assets:					
Land				\$ 37,293	\$ 37,293
Capital assets:					
Building and grounds	\$ 6,035,562	\$ 165,798		(397,968)	5,803,392
Site improvements				342,300	342,300
Machinery and equipment	1,598,685	9,005		(828,873)	778,817
Vehicles	1,270,690	112,980		293,878	1,677,548
Subtotal	8,904,937	287,783	\$ 0	(590,663)	8,602,057
TOTAL CAPITAL ASSETS	8,904,937	287,783	0	(553,370)	8,639,350
	Balance July 1, 2003	Additions	Deletions	Adjustments	Balance June 30, 2004
Accumulated depreciation:					
Building and grounds	4,082,471	133,180			4,215,651
Site improvements	342,300				342,300
Machinery and equipment	564,686	29,823			594,509
Vehicles	1,258,540	102,167			1,360,707
Subtotal	6,247,997	265,170	0	0	6,513,167
NET CAPITAL ASSETS	\$ 2,656,940	\$ 22,613	\$ 0	\$ (553,370)	\$ 2,126,183

Depreciation expense was charged to functions as follows:

Governmental activities:	
Supporting services	\$ 102,167
Unallocated	163,003
TOTAL DEPRECIATION EXPENSE	\$ 265,170

In 2002, the Gwinn school district contracted a third party appraisal company to perform a complete inventory of the School District's capital assets in preparation for the GASB No. 34 financial statement presentation. Using a \$5,000 capitalization threshold, adjustments were made to eliminate all capital assets below \$5,000 (represented in the adjustment column).

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE E--DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2004:

Michigan school readiness	\$ 25,991
Drug free schools	302
CoNect	17,092
Title I carryover	1,841
Title IIA carryover	2,962
Title V	817
CCHD Grant	<u>11,329</u>
TOTAL DEFERRED REVENUE	<u>\$ 60,334</u>

NOTE F--ACCUMULATED UNPAID COMPENSATED ABSENCES

The School District recognizes a liability for accumulated unpaid compensated absences as of June 30, 2004, as follows:

Current portion	\$ 68,188
Long-term debt	<u>196,815</u>
TOTAL ACCUMULATED UNPAID COMPENSATED ABSENCES	<u>\$ 265,003</u>

The current portion is recorded as a liability in the General Fund and is included with employee compensation and related liabilities. The long-term and current portions are included in the Government Wide Statements.

NOTE G--LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2004, is as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
General Long-Term Debt				
Account Group:				
School Improvement Bond, Series 1998	\$ 219,216			\$ 219,216
Northern Lights Revolving Loan		\$ 165,798	\$ (9,233)	156,565
Compensated absences	<u>212,818</u>		<u>(16,003)</u>	<u>196,815</u>
	<u>\$ 432,034</u>	<u>\$ 165,798</u>	<u>\$ (25,236)</u>	<u>\$ 572,596</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE G--LONG-TERM DEBT--Continued

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2004 through June 30, 2008, are as follows:

BONDS PAYABLE

The School District participated in the School Improvement Bond, Series 1998, to obtain one-half of their portion of the statewide Durant Settlement. As part of the settlement, the School District will receive one-half of their total settlement of \$686,265 over a ten-year period. The remaining one-half of the settlement was received in bond proceeds. The debt service requirements of the bonds will be allocated to the School District by the State of Michigan over a fifteen-year period beginning May 15, 1999, as part of their state aid payments. A schedule of the School District's repayment schedule is as follows:

Year Ended June 30	Governmental Activities		
	Durant Bonds		
	Principal	Interest	Total
2005	\$ 0	\$ 0	\$ 0
2006	16,609	7,487	24,096
2007	17,396	6,696	24,092
2008	18,228	5,868	24,096
2009	19,096	5,000	24,096
2010 - 2015	147,887	38,106	185,993
	<u>\$ 219,216</u>	<u>\$ 63,157</u>	<u>\$ 282,373</u>

NORTHERN LIGHTS REVOLVING LOAN

The School District participated in a project to replace the lighting systems at all of the schools in the district with a high efficiency lighting system. The project was completely funded and executed by the Michigan Technical Education Center (M-TEC) at Bay de Noc Community College. After completion of the project, the School District entered into a seven-year note, in the amount of \$165,798 with an annual interest rate of two percent, to reimburse M-TEC for the lighting system. In addition to the monthly installment of \$2,117 the School District is obligated to share with M-TEC 50 percent of the savings from the Energy Management Program, net of the monthly installment paid. All energy bills are sent to M-TEC and they calculate what the energy savings was for the period, and invoice the School District for the amount due.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE G--LONG-TERM DEBT--Continued

Year Ended June 30	Governmental Activities		
	Northern Lights Revolving Bond		
	Principal	Interest	Total
2005	\$ 22,476	\$ 2,926	\$ 25,402
2006	22,929	2,472	25,401
2007	23,392	2,010	25,402
2008	23,864	1,537	25,401
2009	24,346	1,056	25,402
2010 - 2015	39,558	662	40,220
	<u>\$ 156,565</u>	<u>\$ 10,663</u>	<u>\$ 167,228</u>

NOTE H--RESERVED AND DESIGNATED FUND BALANCE

The School District reserves fund balance for the following purposes:

Inventory: In accordance with the AICPA Audit Guide, *Audits of State and Local Governmental Units*, fund balance has been reserved in an amount equal to inventories. This reservation has been recorded to indicate that inventories do not constitute "available spendable resources."

Scholarship Income: The School District reserves fund balance for the nonexpendable gifts received in the Scholarship Fund. Only the investment income from these gifts is to be used for scholarships.

The School District designates fund balance for the following purposes:

Long-Term Portion of Accrued Unpaid Compensated Absences: The School District provides employees with a sick leave benefit plan which provides for a cash payment to qualified employees in the amount of unused sick pay upon termination of employment, or upon request, once the employee is vested (10 years). Fund balance has been designated in an amount equal to the long-term portion of accumulated sick pay and retirement benefits, as the general fund is obligated to pay this benefit, but the liability is not recorded in the General Fund.

Unexpended Investment Income on Scholarship Funds: Interest and dividends received on Scholarship Fund investments are to be used for scholarship awards to students. The accumulated balance of unexpended investment income is designated for scholarships.

Capital Projects: For the funding of current and future major capital expenditures.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE I--PROPERTY TAXES

The non-homestead taxable value of real and personal property located in the School District at July 1, 2003, totaled \$79,400,329 representing approximately 50 percent of estimated current value. The tax levy for the year was based on a rate of 18.00 mills (one mill is equal to \$1.00 per \$1,000 of taxable value) and is remitted to the School District's general fund by taxing units.

The School District's general fund millage on non-homestead property, approved by voters in 1994, will expire in 2013, after which it may be renewed by a vote of the residents of the School District.

NOTE J--MICHIGAN UNIFORM BUDGETING AND ACCOUNTING ACT

The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) and the budget, as presented, has been amended.

Capital outlay budgets in the General Fund are not segregated from other educational expenditures for financial statement presentation. The actual General Fund capital outlay of \$285,401 was budgeted as part of the departmental budgets of instruction and supporting services.

NOTE K--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The School District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor, and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. The annual report may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, P.O. Box 30171, Lansing, Michigan 48909-7671, or by calling (517) 322-5103.

The School District was required by state statute to contribute 12.99 percent of covered payroll. Contributions to MPERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the School District are established and may be amended only by state statute. The School District's contributions to MPERS for the years ending June 30, 2004, 2003, and 2002, were \$860,884; \$847,520; and \$772,442, respectively. Retirement contributions payable at June 30, 2004, 2003, and 2002, were \$70,678; \$66,234; and \$59,129, respectively, were remitted shortly after year-end.

NOTES TO FINANCIAL STATEMENTS--Continued

GWINN AREA COMMUNITY SCHOOLS

NOTE K--EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN--Continued

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9 percent. Members first hired January 1, 1990, or later, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Basic Plan members make no contributions. Contributions collected and remitted by the School District on behalf of MIP members for the years ending June 30, 2004, 2003, and 2002, were \$195,723; \$192,040; and \$186,770, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

NOTE L--RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District, together with approximately 334 other school districts in the State, participate in the MASB-SEG Property/Casualty Pool, Inc., (Pool) a governmental group property and casualty self-insurance pool. The School District pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded; and the Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks, or risks in concentrated areas of exposure by re-insuring certain levels of risk with other insurers or re-insurers. The School District's comprehensive and fleet insurance coverage is limited to a maximum of \$6,000,000 per occurrence for all claims. The School District also maintains an additional \$1,000,000 per occurrence for excess liability coverage. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the School District.

Management is unaware of any pending or threatened claims that are not covered by the Pool that would be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE--BUDGET AND ACTUAL
GENERAL FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Other local sources	\$ 1,409,456	\$ 1,360,661	\$ 1,460,006	\$ 99,345
State sources	8,704,478	8,934,221	9,132,559	198,338
Federal sources	935,628	978,813	686,385	(292,428)
Other	421,945	374,791	312,632	(62,159)
TOTAL REVENUES	11,471,507	11,648,486	11,591,582	(56,904)
EXPENDITURES				
Current:				
Instruction	7,120,547	6,850,524	6,838,807	11,717
Supporting services	4,146,398	4,597,272	4,410,354	186,918
Community service	54,110	98,004	74,421	23,583
Capital outlay			276,396	(276,396)
TOTAL EXPENDITURES	11,321,055	11,545,800	11,599,978	(54,178)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	150,452	102,686	(8,396)	(111,082)
OTHER FINANCING SOURCES (USES)				
Proceeds from borrowing			165,798	165,798
Transfer to local districts		(19,000)	(15,106)	3,894
Transfer to other funds (net)	(199,189)	(195,819)	(150,306)	45,513
TOTAL OTHER FINANCING SOURCES (USES)	(199,189)	(214,819)	386	215,205
NET CHANGE IN FUND BALANCE	(48,737)	(112,133)	(8,010)	104,123
Fund balance at beginning of year	2,922,040	2,922,040	2,922,040	
FUND BALANCE AT END OF YEAR	\$ 2,873,303	\$ 2,809,907	\$ 2,914,030	\$ 104,123

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE--BUDGET AND ACTUAL
FOOD SERVICE FUND

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 207,330	\$ 164,245	\$ 165,910	\$ 1,665
State sources	15,500	19,126	28,372	9,246
Federal sources	283,000	324,941	316,573	(8,368)
TOTAL REVENUES	505,830	508,312	510,855	2,543
EXPENDITURES				
Supporting services	696,734	479,045	471,350	7,695
TOTAL EXPENDITURES	696,734	479,045	471,350	7,695
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(190,904)	29,267	39,505	10,238
OTHER FINANCING SOURCES (USES)				
Transfer to other funds (net)	190,904	(51,659)	(39,505)	12,154
TOTAL OTHER FINANCING SOURCES (USES)	190,904	(51,659)	(39,505)	12,154
NET CHANGE IN FUND BALANCE	0	(22,392)	0	22,392
Fund balance at beginning of year	22,392	22,392	22,392	
FUND BALANCE AT END OF YEAR	\$ 22,392	\$ 0	\$ 22,392	\$ 22,392

OTHER FINANCIAL INFORMATION

COMBINING BALANCE SHEET--OTHER GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

June 30, 2004

	Athletics	Capital Projects	Total Other Governmental Funds
ASSETS			
Cash	\$ 16,736		\$ 16,736
Due from other funds		\$ 45,559	45,559
TOTAL ASSETS	<u>\$ 16,736</u>	<u>\$ 45,559</u>	<u>\$ 62,295</u>
LIABILITIES			
Accounts payable	\$ 1,241		\$ 1,241
Due to other funds	15,495		15,495
TOTAL LIABILITIES	<u>16,736</u>	<u>\$ 0</u>	<u>16,736</u>
FUND BALANCE			
Designated for capital projects		45,559	45,559
Undesignated			
TOTAL FUND BALANCE	<u>0</u>	<u>45,559</u>	<u>45,559</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 16,736</u>	<u>\$ 45,559</u>	<u>\$ 62,295</u>

COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE--OTHER GOVERNMENTAL FUNDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

	Athletics	Capital Projects	Total Other Governmental Funds
REVENUES			
Local sources	\$ 43,952	\$ 40	\$ 43,992
TOTAL REVENUES	<u>\$ 43,952</u>	<u>\$ 40</u>	<u>\$ 43,992</u>
EXPENDITURES			
Supporting services	\$ 233,763	\$ 16,616	\$ 250,379
Capital outlay		10,584	10,584
TOTAL EXPENDITURES	<u>233,763</u>	<u>27,200</u>	<u>260,963</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(189,811)	(27,160)	(216,971)
OTHER FINANCING SOURCES (USES)			
Incoming transfers and other transactions	189,811		189,811
TOTAL OTHER FINANCING SOURCES (USES)	<u>189,811</u>	<u>0</u>	<u>189,811</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER FINANCING USES)		(27,160)	(27,160)
Fund balance at beginning of year	<u>0</u>	<u>72,719</u>	<u>72,719</u>
FUND BALANCE AT END OF YEAR	<u>\$ 0</u>	<u>\$ 45,559</u>	<u>\$ 45,559</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/03	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/04
US DEPARTMENT OF EDUCATION						
Passed through Michigan Department of Education:						
Title I, Part A	84.010					
Project 031530 0203		\$ (11,560)	\$ 335,133		\$ 11,560	
Project 031530 0304				\$ 11,167	11,167	
Project 041530 0304				338,491	361,986	\$ 23,495
		(11,560)	335,133	349,658	384,713	23,495
Title V	84.298					
Project 040250 0304				18,789	20,625	1,836
Technology Literacy Challenge	84.318					
Project 034290 0203		10,325		10,325		
Project 044290 0304				9,527	9,527	
		10,325		19,852	9,527	
Comprehensive School Reform	84.332					
Project 021870 0203			228,575	17,092	17,092	
Project 031870 0304				237,412	225,584	(11,828)
		0	228,575	254,504	242,676	(11,828)
Improving Teacher Quality	84.367					
Project 030520 0203		(11,151)	86,586		11,151	
Project 030520 0304				6,126	6,126	
Project 040520 0304				88,925	92,502	3,577
		(11,151)	86,586	95,051	109,779	3,577
Total Passed through Michigan Department of Education		(12,386)	650,294	737,854	767,320	17,080
Passed through Marquette-Alger Regional Education Service Agency:						
Public Law 94-142 Flowthrough	84.027					
Project 040450 0304				124,586	124,586	
UP Cares (Autism Project)	84.027					
Project 040490 3D51				434	434	
Carl D. Perkins	84.048					
Project 4012 02				5,050	6,240	1,190

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/03	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/04
Preschool Project 040460 0304	84.173			\$ 1,072	\$ 1,072	
Safe and Drug Free Schools Project 032860/0304	84.186		\$ 5,861	9,117	9,117	
Project 042860/0304				4,041	3,739	\$ (302)
		\$ 0	5,861	13,158	12,856	(302)
Total Passed through Marquette-Alger Regional Educational Service Agency		0	5,861	144,300	145,188	888
TOTAL US DEPARTMENT OF EDUCATION		(12,386)	656,155	882,154	912,508	17,968
US DEPARTMENT OF AGRICULTURE						
Direct Programs - Summer Food Program	10.559	2,340	9,375	11,944	8,727	(877)
Passed through Michigan Department of Education:						
National School Lunch Breakfast	10.553					
Project 031970				8,195	8,195	
Project 041970				60,026	60,026	
				68,221	68,221	
Food Distribution	10.550					
Entitlement Commodities				24,634	24,634	
Bonus Commodities				4,617	4,617	
				29,251	29,251	
National School Lunch Program:	10.555					
National S/L Section 4 All Lunches						
Project 031950				4,105	4,105	
Project 041950				26,623	26,623	
National S/L Section 11 Free and Reduced						
Project 031960				23,510	23,510	
Project 041960				153,166	153,166	
				207,404	207,404	
Total Passed through Michigan Department of Education				304,876	304,876	
TOTAL US DEPARTMENT OF AGRICULTURE		2,340	9,375	316,820	313,603	(877)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

Funding Source/Program	Federal CFDA#	Accrued (Deferred) Revenue 7/1/03	Prior Year Accumulated Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/04
US DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Marquette-Alger Regional Educational Service Agency:						
Medicaid FFS Transportation Project 0203	93.UNK	\$ 8,361	\$ 8,361	\$ 8,361	\$ 4,610	\$ 4,610
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES		8,361	8,361	8,361	4,610	4,610
COMMUNITY SERVICE						
Passed through Michigan Community Service Commission - Learn and Serve Project MCSC/MLS/F-78-04						
	94.004			12,517	12,517	
TOTAL COMMUNITY SERVICE				12,517	12,517	
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ (1,685)	\$ 673,891	\$ 1,219,852	\$ 1,243,238	\$ 21,701

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The *Schedule of Expenditures of Federal Awards* is prepared using the same significant accounting policies as those used in the preparation of the general purpose financial statements.

NOTE B--RECONCILIATION OF FEDERAL AWARDS

Management has utilized the *Grants Section Auditors Report* (Form R7120) in preparing the *Schedule of Expenditures of Federal Awards*. The following schedule reconciles Form R7120 to the federal expenditures included in the *Schedule of Expenditures of Federal Awards*.

Total Receipts	\$ 1,035,667
Less: State Grants	
School Breakfast Program State Funds	11,542
Driver Education Grants	10,647
	<u>22,189</u>
Total Federal Receipts	1,013,478
Total Commodities	<u>29,251</u>
Total Federal Receipts	<u><u>\$ 1,042,729</u></u>
US Department of Education Grants	737,853
US Department of Agriculture Grants	<u>304,876</u>
Total Federal Receipts	<u><u>\$ 1,042,729</u></u>

The total federal revenue sources of \$1,002,958 shown on the audited basic financial statements is \$240,280 less than the federal expenditures listed on the federal schedule of awards. The difference represents Comprehensive School Reform funding.

APPENDICES



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPAs
Michigan Association of CPAs

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

We have audited the financial statements of Gwinn Area Community Schools, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gwinn Area Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gwinn Area Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



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Our goal is to help you meet yours!

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Board of Education
Gwinn Area Community Schools

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Toutant, Hill & Naudi, P.C.

October 15, 2004



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Gwinn Area Community Schools
Gwinn, Michigan

Compliance

We have audited the compliance of Gwinn Area Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Gwinn Area Community School's major federal programs are identified in the summary of results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gwinn Area Community School's management. Our responsibility is to express an opinion on Gwinn Area Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gwinn Area Community School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gwinn Area Community School's compliance with those requirements.

In our opinion, Gwinn Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



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Board of Education
Gwinn Area Community Schools

Internal Control Over Compliance

The management of Gwinn Area Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gwinn Area Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Tourant, Hill + Nardi, P.C.

October 15, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GWINN AREA COMMUNITY SCHOOLS

Year Ended June 30, 2004

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance, material to the financial statements of Gwinn Area Community Schools, were disclosed during the audit.
4. No reportable conditions were disclosed regarding the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.
6. There are no audit findings required to be disclosed under section 510(a) of OMB Circular A-133.
7. The programs identified as major are Improving Teacher Quality (CFDA #84.367) and National School Lunch (CFDA #10.550, #10.553, and #10.555).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Gwinn Area Community Schools qualified as a low-risk auditee.